Fiscal Management Division Statewide Fiscal Oversight Dept. Expenditure Audit Section

October 24, 2018 Final

Desk Audit – Charge Card Program 302 – Office of the Attorney General

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Executive Summary

Audit best practices indicate that data analytics has a critical role in uncovering fraud, waste, abuse and monitoring risks. The Comptroller's Fiscal Management Division, Expenditure Audit (EA) section now uses data mining techniques to:

- Run statewide systems reports to identify instances of possible fraud, waste, abuse and/or noncompliance.
- Follow up on any instances found by performing desk audits.

The desk audits are conducted in accordance with Texas Government Code, Section 403.011(13) and assist EA with the annual risk assessment for the post-payment audit process.

In this instance, auditors conducted desk audits of certain agencies' activities based on ad hoc reports from the Uniform Statewide Accounting System (USAS) and Citibank reporting system. These desk audits help determine if state agencies and institutions of higher education have adequate monitoring controls over the purchase and travel cards payment process, which prevent rebate losses from the Citibank Charge Card Program.

The Office of the Attorney General (Office) was identified as an agency with 27 credit card payments totaling \$14,244.80 using the incorrect billing account number in violation of the Comptroller's policy requirements prescribed by <u>Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements (FPP A.043) and USAS and CAPPS Financial Invoice Number Field Requirements (FPP E.023).</u>

In a letter dated Aug. 11, 2017, auditors requested the Office provide its written policies and procedures relating to recording purchases and travel card payment transactions in USAS.

The detailed results of the completed review of the Office's policies, procedures and supporting documentation are described in this report's Detailed Issues and Findings and cover the Office's following issues:

- The full 16 digits of the central billing account (CBA) numbers were used to process 27 credit card payments (consisting of 34 line items) instead of just the last 10 digits.
- Policies and procedures do not agree with instructions on Comptroller's related policies.

Detailed Issues and Findings

Below is a summary of the Office's policies, procedures and supporting documentation review:

The Office stated that it determined the payments on the ad hoc reports from USAS and Citibank have processed correctly, according to the Office's accounts payable internal policy, #507.01. Specifically, the Office stated the travel transactions on the Comptroller's report (24 out of 34 line items) were associated with fact witnesses and not the Office's employees' travel expenses. The payments were processed using either a travel card or a payment card; however, the Office stated that its staff followed the Office's internal accounts payable policy and procedure #507.01 for these payments.

The Office asserted that all direct bill travel payments paid with the CBA reflect the correct invoice number per FPP A.043, its internal accounting policy, and procedure #220.02. Auditors did not notice any issues with the billing account number used on the travel payments for the Office's employees.

The Office acknowledged that, for the 34 line items in the CPA report, it processed the payments using the full 16 digits of CBA numbers, which does not comply with the Comptroller's instruction in FPP A.043 and FPP E.023. Processing credit card payment transactions must follow guidelines within FPP A.043 and FPP E.023. Correct invoice numbers must be entered regardless of the nature or source of the charges on the CBA credit cards.

Per FPP E.023, payees must be able to identify and reconcile payments they receive from state agencies and institutions of higher education. The invoice number field in USAS and CAPPS Financials should be used to provide payees with the payment-related information needed to reconcile payments.

Entering procurement and travel card transactions in USAS or CAPPS Financials requires special considerations for timely reconciliation of payments. Although the Office stated the payments on the Comptroller's report processed correctly, the risk still exists that other payments that do not include the correct information in the invoice number field will not post to the correct account(s) on a timely basis, leading to the account(s) becoming delinquent and ultimately resulting in lost rebate dollars. Citibank's system posts payments received from the State Treasury based on information in USAS and CAPPS Financials, and the automated interface expects the last 10 digits of the CBA number, with no spaces or dashes. If Citibank's system retrieves an unexpected value due to incorrect entry in the invoice number field, it will be unable to post the payment automatically. Citibank must then manually research the rejected entry and post the payment to the correct account, which could cause delays in posting.

Also, FPP A.043 and FPP E.023 are consistent with the current Payment Card Industry (PCI) Data Security Standard (DSS). The DSS requirement "Protect stored cardholder data" (Requirement 3) dictates that the primary account number be rendered unreadable anywhere it is stored. This can be done by truncating a portion of the account number. The FPPs require truncating the first six digits of the CBA number. Therefore, the FPPs should be fully and consistently followed for every payment transaction.

Auditors reviewed the Office's policies and procedures #220.02 and #507.01. Page 9 of the #507.01 policy states that the invoice number is a required field and normally the vendor's invoice number is used if provided by the vendor. Otherwise any information associating the payment with an amount due can be included in this field. This statement in the Office's procedure does not comply with FPP A.043 and FPP E.023.

The Office stated that its internal accounts payable policies and procedures will be updated to comply with FPP A.043 guidelines.

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Incorrect Billing Account Number

Finding

The Office processed 27 card payments (consisting of 34 line items) totaling \$14,244.80 using the full 16 digits of the CBA number instead of just the last 10 digits. Using the full 16 digits might result in the vendor (Citibank) not being able to timely post payments to the Office's purchase and travel card accounts.

Recommendation/Requirement

- 1. The Office must comply with <u>FPP A.043</u> when processing card payments, regardless of the type of card used or the type of traveler. When travel or procurement card charges are paid, only the last 10 digits of the Office's CBA number are to be entered in the invoice number field. It should be noted that while the CBA happens to be 16 digits, it is not an actual credit card number. Also, any additional information the Office wishes to add to the 10 digits as a suffix must be separated by a dash with no spaces before or after.
- 2. The Office must use and reference <u>FPP E.023</u> when processing CBA and corporate liability individual billed account invoices. FPP A.043 and FPP E.023 comply with the current PCI DSS requirements and therefore should be fully and consistently followed for each payment transaction.
- 3. The Office should update its internal accounting policies and procedures to be consistent with FPP A.043 and FPP E.023. The Office should clarify policies and procedures to specifically address payment on CBA credit cards regarding payment to other vendors.

Office Response

The OAG reviewed all 34 line-item transactions and compared them with the corresponding invoices from Citibank. Each invoice was processed and paid to the correct CBA. The transactions also posted to the subsequent Citibank billing statement correctly to avoid account delinquent payment or reconciliation issues. The OAG used the correct CBA number for all 34 transactions in question. However, the OAG acknowledges that the full 16-digit CBA number was used on these transactions instead of the last 10 digits as required by FPP E.023. The OAG also acknowledges that the internal OAG Accounts Payable Procedure #507.01 was not in compliance with FPP E.023, and was updated last year on Sept. 18, 2017 to reflect that the last 10 digits of the CBA should be used in the invoice number field for credit card transactions. In addition, no changes were required for the OAG Travel Procedure #220.02 because it was in compliance with FPP A.043 and FPP E.023.

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Appendices

EXA

Appendix 1 — Desk Audit Process Overview

Desk audits are conducted by the Expenditure Audit (EA) section of the Comptroller's Statewide Fiscal Oversight Department within the Fiscal Management Division in accordance with Texas Government Code, Section 403.011(13).

Audit objectives

Desk audits use data mining techniques and reports from statewide systems to:

- Identify instances of possible fraud, waste, abuse and/or noncompliance.
- Follow up on any instances found by performing desk audits.

Comptroller's office responsibilities/supporting statute

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher in accordance with Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis in accordance with Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Methodology

- 1. Run ad hoc reports from USAS and Citibank.
- 2. Use one or more of the following audit criteria:
 - State of Texas Charge Card Program
 - <u>State of Texas Procurement and Contract Management Guide</u>, Commercial Charge Card section
 - Procurement Rules
 - Travel Policies
 - <u>Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill</u> Payments and Reimbursements (FPP A.043)
 - USAS and CAPPS Financial Invoice Number Field Requirements (FPP E.023)

Fieldwork

For each entity listed on the ad hoc report, auditors must perform the following:

- 1. Review delinquency reports.
- 2. Obtain and review the agency's written policies and procedures to gain understanding of how the agency enters credit card payments in USAS.
 - a. Do the agency's procedures comply with FPP A.043 and FPP E.023?
 - b. Were the procedures followed?

Reporting

The audit findings are reported formally to the audited agency in the form of a report. The audit report includes recommendations and requirements for implementing or improving preventive controls that help reduce associated risks.